

SPECIAL EDITION
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Retirement News for Employers

Helping Business Owners with Retirement Plans

Internal Revenue Service Tax Exempt and Government Entities

Answers to Roth 401(k) Questions are Here!

On December 30, 2005, the IRS and Treasury released the much awaited Roth 401(k) final regulations. These regulations – effective January 1, 2006 – provide guidance on the requirements for designated Roth contributions under a qualified cash or deferred arrangement (CODA). Knowing that there's plenty of interest in Roth 401(k) accounts, the IRS also developed a list of [Roth 401\(k\) Contributions FAQs](#).

Designated Roth contributions under a CODA permit an employee who makes elective contributions under a CODA to designate some or all of those contributions as designated Roth contributions. Designated Roth contributions are elective contributions under a CODA that, unlike pre-tax elective contributions, are currently includible in gross income. However, a qualified distribution of designated Roth contributions is excludable from gross income.

Similar rules will apply to designated Roth contributions available under 403(b) plans sponsored by tax-exempt organizations and public schools.

While designated Roth contributions bear some similarity to Roth IRA contributions, there are differences between the types of arrangements, including:

- Designated Roth contributions are not limited by income.
- Pre-tax elective contributions under a CODA may not be converted to a designated Roth account.
- Designated Roth contributions do not have the specific ordering rules for distributions that are imposed on Roth IRAs.

Additional highlights of the Roth 401(k) rules include:

- The plan document must be amended to provide for designated Roth contributions.
- Designated Roth contributions are irrevocable as such.
- Designated Roth contributions must be maintained in a separate account and distributions, gains, losses and other credits or charges must be separately tracked.
- If a 401(k) plan is going to provide for designated Roth contributions, it must also offer pre-tax elective contributions.
- Forfeitures and matching contributions may not be allocated to a designated Roth account.
- Designated Roth contributions:
 - Are subject to the nonforfeitability and distribution restrictions applicable to other elective contributions;
 - May be treated as catch-up contributions; and
 - May serve as the basis for a participant loan.

For additional information on designated Roth contributions, see the [Treasury Press Release](#), the [final regulations](#) and [Roth 401\(k\) Contributions FAQs](#) featured at the [Retirement Plans Community web page](#). ■